

City Light Strategic Plan

Proposed Changes to the Preferred Path

Background

In the current preferred path City Light assumes \$40 M of withdrawals from the RSA and a deferral of roughly \$60 M of principal payments over the 2013-2018 time period. Both these decisions were made to help smooth the projected year to year rate impacts. However, there is a possibility that these strategies may have an adverse impact on City Light's credit rating. Alternatively, given the lower rates in the current bond market, there may be refinancing options and lower interest rate assumptions that could help both lower and smooth rates in the preferred path, without the need of principal deferrals or RSA withdrawals.

Summary

The new assumptions are:

- Move to 30-year bond issues 2012-2018 (previous assumption was 25 years)
- Refinance eligible bonds (assume current rates plus 75 basis points)
- Update the effective interest on the 2012 bond issue assumptions (current rates plus 75 basis points, also include CREBS)
- Reduce the interest rate assumptions on future debt issues (works out to be around 4.5%, old assumption was 5.0%)
- No RSA withdrawals, target balance remains at \$100 M
- No principal deferrals
- Assess timing and cost of major projects and their impact on rates

Rate Impacts

	Preferred Path Base Rate Increase (No RSA Surcharges or Credits)						
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Avg</u>
Current	3.4%	6.1%	5.2%	5.0%	5.2%	6.3%	5.2%
Proposed	4.4%	5.2%	5.2%	5.0%	5.0%	3.6%	4.7%

Pros for new assumptions:

- Strategy likely more favored by financial community
- Incorporates current bond market information for 2012 bond issue and refinancing (with 75 basis point buffer)
- Both lowers and smoothes rate impacts

Cons for new assumptions:

- Interest rate assumptions are less conservative than before, increasing the risk of having actual debt service above planning values
- Assuming 30-year bond issues for all debt issued during 6 yr period then reverting to 25-year debt issuances after that.